CHAPTER 6

Conclusion

A 2006 study by Deloitte Research, "Paying for Tomorrow: Practical Strategies for Tackling the Public Pension Crisis" has, fortunately, more relevance to plans in some other states than to Wyoming. In the last decade, many states used revenues that should have gone into pension funds to finance other priorities; here, the Legislature has supported consistent pre-funding of the retirement system and has kept contributions stable. This careful approach enabled Wyoming's plan to weather the down markets of 2000 – 2002 and emerge in a well-funded position.

Wyoming statute gives the WRS Board fiduciary authority and responsibility for plan administration, while the Legislature controls important aspects such as setting the contribution rates and benefits structure. Given this shared authority, a good way to sum up the basic challenge for the WRS Board is that it must balance plan benefits for the youngest new employee with those of the oldest retiree. In working to achieve this goal, the board has managed the system well: our research shows that although the contribution rate in Wyoming is lower than in most surrounding states, base benefits for new retirees are comparable to or even more generous than in those states.

Still, the plan and overall system are maturing and becoming more complicated, and given these conditions, maintaining the simplicity of the plan is likely to prove more difficult. As baby-boomers retire, greater numbers of retirees will be relying on plan benefits – yet there will be proportionately fewer contributing members. Moreover, institutional investors now have a greater appreciation of what poor investment returns can do to a plan's overall condition.

How the plan's financial stability is predicted, and how that impacts the board's setting of a post-retirement COLA, are anything but straightforward processes. Based on actuarial soundness, the COLA determination is complex, not simply a matter of equating annual investment returns with changes in the cost of living. Added to this, WRS has not articulated whether it intends to change its 3 percent COLA policy, adopted after our 1996 report. It needs to do a better job of explaining to members and legislators why, since 2004, COLAs have steadily decreased. Simply put, to avoid further confusion, WRS should be clear about its COLA policy and what the funding strategy is.

At the same time, participants in the big plan need to keep in mind that they receive fully-paid retirement benefits. Most employers in the system are paying both the employer and the employee share of the contribution rate, with no deductions for retirement taken from employee salaries. Recent COLAs have indeed been lower than the increases in cost of living, and the amounts have been unpredictable. Yet at a policy level, requiring retirees to absorb part of the loss of purchasing power caused by inflation may be a reasonable offset to the generosity of initial benefits. It may not be realistic to expect an 11.25 percent contribution rate to provide a *guaranteed* COLA on top of that.

Now that WRS has weathered the low investment returns of the early 2000's, it is entering a new era of pension management. With a new and heightened level of liability for board members, efficiency and effectiveness may not always be best delivered by what WRS terms extremely low administrative costs. We believe the plan's maturity calls for less-standardized approaches than have been used up to now, and WRS needs to clarify what state agency constraints truly apply under its statutorily-defined independence. Additionally, as the plan's sponsor and the board's full partner, we recommend that the Legislature consider designating a committee with oversight responsibility for this $6 billion system.

WRS and the Legislature need to move forward – but should proceed cautiously, without rushing to adopt policy or statutory changes before all options are on the table. Overall, the recommendations in this report provide a contemporary foundation on which WRS and the Legislature can build to maintain the positive outlook for the plan.